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FILED  
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Department of Insurance  
State of Idaho

BEFORE THE DIRECTOR OF THE DEPARTMENT OF INSURANCE  
STATE OF IDAHO

In the Matter of:

WESTERN COMMUNITY INSURANCE  
COMPANY

Certificate of Authority PC1287

)  
)  
) ORDER ADOPTING REPORT OF  
) EXAMINATION AS OF  
) DECEMBER 31, 2002  
)

) Docket No. 18-2259-04  
)  
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Whereas, the above described Report was completed by examiners of the Idaho Department of Insurance, signed the 21<sup>ST</sup> day of June, 2004 by Dean Cassens, CFE and filed effective June 21<sup>st</sup>, 2004.

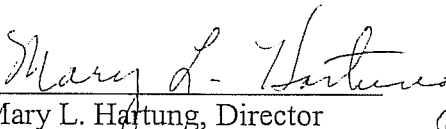
After carefully reviewing the above described Report, and good cause appearing therefor, it is hereby ordered that the above described Report is adopted as filed. Further,

the above described Report is incorporated herein by reference, which includes the findings and conclusions supporting this Order.

Based upon the Waiver signed by the Company dated June 28, 2004, this is a final Order, and the Company has also waived its rights to reconsideration and appeal / judicial review of this Order.

IT IS HEREBY ORDERED that the examination report be adopted and filed as an official record of the Department.

Dated and Effective this 8<sup>th</sup> day of July, 2004.

  
Mary L. Hartung, Director  
Idaho Department of Insurance

**CERTIFICATE OF SERVICE**

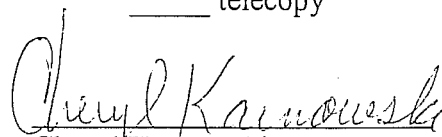
I hereby certify that on this 8<sup>th</sup> day of July, 2004 I caused to be served the foregoing Order Adopting Examination Report on the following parties in the manner set forth below:

Western Community Insurance Company  
Paul Roberts, Treasurer  
275 Tierra Vista Drive  
Pocatello, Idaho 83201

☒ certified mail  
☐ first class mail  
☐ hand delivery  
☐ telecopy

Georgia Hill, Bureau Chief/Chief Examiner  
Idaho Department of Insurance  
700 W. State St., 3<sup>rd</sup> Floor  
Boise, Idaho 83720-0043

☐ certified mail  
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☒ hand delivery  
☐ telecopy

  
Cheryl Karnowski  
Management Assistant

DEPARTMENT OF INSURANCE

STATE OF IDAHO

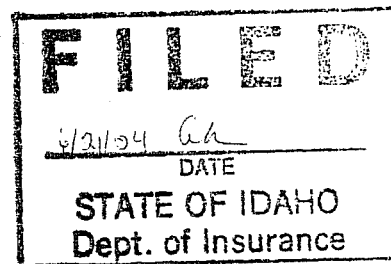
REPORT OF EXAMINATION

of

WESTERN COMMUNITY INSURANCE COMPANY  
Pocatello, Idaho

as of

DECEMBER 31, 2002



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*State of Idaho*  
**DEPARTMENT OF INSURANCE**

**DIRK KEMPTHORNE**  
Governor

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**MARY L. HARTUNG**  
Director

Pocatello, Idaho  
June 21, 2004

The Honorable Mary L. Hartung  
Director of Insurance  
700 West State Street  
Boise, Idaho 83720

Madam:

Pursuant to your instructions and in conformity with the provisions of the Insurance Laws and Rules of the State of Idaho, an examination has been made of the administrative affairs, books, records and financial condition of

**WESTERN COMMUNITY INSURANCE COMPANY**  
**275 TIERRA VISTA DRIVE**  
**POCATELLO, IDAHO 83201**

hereinafter referred to as "the Company," at its offices in Pocatello, Idaho. Also the Idaho Department of Insurance is hereinafter referred to as the "Department."

The following Report of Examination is respectfully submitted.

## SCOPE OF EXAMINATION

This examination covers the period January 1, 1999, through December 31, 2002, and includes such prior transactions and any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination. The examination was conducted in accordance with generally accepted examination procedures and accounting guidelines. Verification and valuation of assets, determination of liabilities and reserves, and an analysis and review of such other accounts and records appropriate to the examination were also performed.

There was some reliance placed upon independent auditor's workpapers and reports for this examination. Deaton & Company, Chartered, the Company's certified public accountants, provided the audit workpapers as of December 31, 2002. When audit workpapers were utilized during the examination, such utilization was denoted on the workpaper.

A letter of representation attesting to the Company's ownership of all assets and to the nonexistence of unrecorded liabilities or contingent liabilities was signed by and received from management.

## PRIOR EXAMINATION

The prior examination was conducted by the Idaho Department of Insurance, and covered the period of January 1, 1995 through December 31, 1998.

The Comments and Recommendations contained in that report and the Company's response to those comments and recommendations are as follows:

1. Insurance Holding Company System. Farm Bureau Finance Company, the immediate parent to the Company, provided premium financing to the Company's policyholders. The financing plan provided for the policyholder to assign all rights and interest to any return of unearned premium, which may become payable. The Company guaranteed payment to the finance company in the event of default on the part of the borrower. This Company guaranty was in verbal form only. It is recommended that the Company establish a written agreement for the guaranteed payment to the finance company in the event of default on the part of the borrower.

*Company's Response. A written agreement between Western Community Insurance Company and Farm Bureau Finance Company was completed on September 7, 1999. This agreement along with the Holding Companies Form D was sent to the Department of Insurance September 20, 1999.*

2. Policy Forms and Underwriting Practices. During the period under examination, the Company filed a number of endorsements and revised policy forms for various lines of coverage. A listing of policy forms approved by the Department of Insurance was compared to the forms provided to the examiners by the Company. It was determined that the policies currently being used were altered and have not been filed with the Department of Insurance. It is recommended that the Company review all policies currently in use and file the updated policies with the Department to be in compliance with Idaho Code Section

41-1812.

*Company's Response. We have changed the signature on our policies and put new edition dates on these policies. We later discovered that changing the signature on the policies did not require a new filing with the Department; however, the new edition date did require a new filing. We immediately changed our policy edition dates back to the original dates.*

*The procedure for making a change to a policy or endorsement has been re-examined. All changes are now routed through the underwriting manager and then to the information systems manager and to our legal counsel. After all have approved the content of the document, it is filed with the Department of Insurance.*

*The Company uses both in house policy forms and ISO forms. We are currently rewriting company policy forms. These will be filed with the Department of Insurance as they are completed.*

3. Suspected Fraudulent Claims. The Company had a suspected fraudulent claims procedure, as required by Idaho Code Section 41-290. However, the reporting of suspected fraudulent claims within the 60 days requirement could not be verified. It is recommended that the Company record both the date it first suspects a fraudulent claim and the date it subsequently reports it to the Department of Insurance.

*Company's Response. The Company has created a log sheet to track suspected fraudulent claims forms. It will be the responsibility of the regional claims managers to complete the suspected fraudulent claim form and submit it to the Department of Insurance. They will also log the approximate date of suspicion and the date submitted to the Department of Insurance on the log sheet. A copy of the suspected fraudulent claim form and the log sheets will be sent to the home office claims department where a central file will be kept with a follow-up system to ensure proper reporting.*

4. Complaints. The Company maintained a Quality Control Log. An examination of a sample of the supporting files revealed that:
- The Company appeared to not follow-up on some of the complaints and makes certain that the complainant was satisfied with the response.
  - Some of the actual policyholder and Department of Insurance complaints were not kept in the complaint files.
  - Some of the Company's responses were not kept with the complaint files
  - The Company could not produce some of the complaints maintained on the Quality Control Log.
  - The Company's response to one Department of Insurance inquiry was not handled timely.

The company was not in compliance with Idaho Code Section 41-1330, that states; "Every authorized insurer shall maintain a complete (emphasis added) record of all the complaints which it has received since the date of its last examination . . ." It is recommended that the Company amend its procedures as follows:

- The Company should follow up on complaints and leave the files open until the Company has verified that the complainant has no further inquiries.

- The Company should maintain more complete complainant files with a copy of the original complaint and all subsequent correspondence in relationship to the complaint.
- The Company should respond to all inquiries from either the policyholder or the Department of Insurance in a timelier manner.

Company's Response. *The Company has implemented the following procedures for handling complaints:*

*All Complaints come first to the underwriting coordinator where they are logged and the corresponding file(s) reviewed. A separate complaint file is set up at this time with the name, policy number and complaint date listed on the tab for easy identification. A log sheet is included with each complaint to verify that all the required information is contained in the file. The complaint and file are routed to the appropriate department head according to the type of complaint. The underwriting coordinator has a follow-up system to make sure a response is sent to the Department within the required timeframe. Responses to the individual filing the complaint will be timely and all documentation will be contained in the individual complaint files.*

*The examination recommends that the Company make sure the policyholder is satisfied with the company response. While the Company cannot ensure that the policyholder will always be satisfied with the response, the complaint file will remain open until the Company has verified that the policyholder has no further inquiries.*

*Written procedures for handling complaints will be completed and routed to all department heads to ensure full awareness of the new guidelines.*

5. Bonds. An examination review of the custodial agreements disclosed that the agreements did not include the NAIC safeguard provisions as outlined under Bond examination procedures II A. (1) and (2). These procedures require that; (1) the bank is obligated to indemnify the Company for any loss of securities due to negligence or dishonesty of the bank, and (2) that in the event of such loss, the securities shall be promptly replaced, and the value of any loss of rights or privileges from such loss shall be promptly replaced. It is recommended, as in the prior examination, that the Company implement these safeguard procedures into all of its custodial/safekeeping agreements. It was also noted during the review of the custodial agreements that one custodial bank had undergone two name changes since the agreement was executed on October 18, 1988. It is recommended that this agreement be amended or modified to include the current name of the bank.

Company's Response. *The custodial agreement for the regular account has been rewritten and now includes the NAIC safeguard provisions. A copy of this agreement is attached. The custody agreement required by Idaho Code Section 41-316 for the protection of all of the Company's policyholders does not contain the safeguard provisions as described in the Bond examination procedures II A (1) and (2). The content of this agreement is determined by the Idaho Department of Insurance; therefore, we are unable to comply until the Department changes this form.*

6. Common Stocks. The one-dollar-per-share money market account valued at \$203,970 was purchased through and held by the A.G. Edwards brokerage firm at December 31, 1998. Section II B. 2 (c) (Bonds and Stocks Procedures) of the NAIC Handbook requires



that the securities be held by a licensed bank or trust company. It is recommended that the Company take the necessary measures to comply with this requirement with regard to the money market account.

*Company's Response.* The A. G. Edwards Centennial Money Market was closed in September 1999. The Company now utilizes the Victory Federal Money Market Select account through Key Bank.

7. Loss and Loss Adjustment Expense Reserves. The examination actuary found two minor errors in the Annual Statement that prompted the following recommendations:
- In accordance with the NAIC Annual Statement Instructions, we recommend that the Company report in Schedule P the amount for salvage and subrogation received and receivable, which relate to net of reinsurance losses.
  - We recommend that the Company book the assumed mandatory workers compensation pool business in annual statement line of business 16 – workers compensation, rather than in line 30B – non-proportional assumed liability reinsurance.

*Company's Response.* The Company began reporting salvage and subrogation received and receivable net of reinsurance on the 1999 annual statement. The Company will begin reporting the assumed workers compensation pool business in annual statement line of business 16 in 2000.

## HISTORY AND DESCRIPTION

The Company was incorporated on April 4, 1980 as a stock insurance company under its current name, and commenced operations on August 18, 1980 conducting multi-line insurance business in Idaho. The Company provided commercial multiple peril, inland marine, worker's compensation, other liability - occurrence, private passenger auto liability, and burglary and theft coverages in the State of Idaho. The Company operated under the provisions of Title 41 of the Idaho Code.

On March 11, 1999, the Company was issued its Certificate of Authority to commence writing business in the State of Oregon. The Company was authorized to write property, casualty (excluding Workers' Compensation), surety, and marine and transportation coverages.

On July 8, 1999, the Company was issued its Certificate of Authority to commence writing business in the State of Washington. The Company was authorized to write property, vehicle, general casualty, surety, and marine and transportation coverages.

The Company leases office space from Farm Bureau Mutual Insurance Company of Idaho (FBMIC). During March 2002, FBMIC relocated to a new home office building located at 275 Tierra Vista Drive, Pocatello, Idaho; therefore, the Company was relocated to that address.

## Capital Stock

Effective January 22, 1999, the Company's Articles of Incorporation were amended to increase the authorized capital to 1,000,000 shares of common stock, with a par value of \$20 per share. The authorized shares were "non-assessable." (See CORPORATE RECORDS-Articles of Incorporation and Bylaws for further comments)

As of December 31, 2002, the Company had authorized capital of 1,000,000 shares of \$20 par value common stock, of which 167,197 of the authorized shares were issued and outstanding for capital in the amount of \$3,343,940. Of the 167,197 shares outstanding, Farm Bureau Finance Company held 161,970 shares or 96.9% of the outstanding shares.

The capital stock register was reviewed and reconciled with the respective capital accounts, and a chronological listing of shares issued and redeemed, during the examination period, was made. The Company's capital stock certificate book included stubs for outstanding issues, cancelled certificates, which had been redeemed, and affidavits for lost certificates.

The activity in the capital structure during the period covered by this examination was as follows:

<u>Date</u>	<u>Description</u>	<u>Shares</u>	<u>Capital Paid in</u>	<u>Surplus Paid in &amp; Contributed</u>
12/31/1998	Balances, December 31, 1998	<u>82,600</u>	<u>\$1,652,000</u>	<u>\$158,699.30</u>
02/12/1999	Shares Redeemed	(1)	\$ (20)	\$ (94.38)
02/12/1999	Shares Issued	1	20	125.39
03/18/1999	1 for 1 Stock Dividend	82,600	1,652,000	0
06/28/2000	Shares Issued	2,000	40,000	117,446.00
01/25/2001	Shares Issued	1	20	62.71
01/26/2001	Shares Redeemed	(2)	(40)	(125.39)
04/23/2001	Shares Redeemed	(2)	(40)	(52.22)
07/19/2001	Shares Issued	1	20	61.97
04/24/2002	Shares Redeemed	(2)	(40)	(94.38)
07/22/2002	Shares Issued	<u>1</u>	<u>20</u>	<u>65.79</u>
	Change during the period	<u>84,597</u>	<u>\$1,691,940</u>	<u>\$117,395.49</u>
12/31/2002	Balances, December 31, 2002	<u>167,197</u>	<u>\$3,343,940</u>	<u>\$276,094.79</u>

As of the examination date, all members of the Company's Board of Directors were shareholders, as required by Idaho Code Section 41-2835(3). Subsequently, this requirement was eliminated by the 2003 Idaho State Legislature.

## Dividends to Stockholders

No cash dividends were declared or paid to the stockholders, during the examination period covered by this examination.

On March 2, 1999, the Board of Directors approved a resolution, which provided for a stock dividend of one share of stock to be issued for each outstanding share of the Company's capital stock. The Company submitted notification to the Department, as required by Idaho Code Section 41-3809. On March 18, 1999, the Company issued the stock dividend, which increased the paid in capital to \$3,304,000.

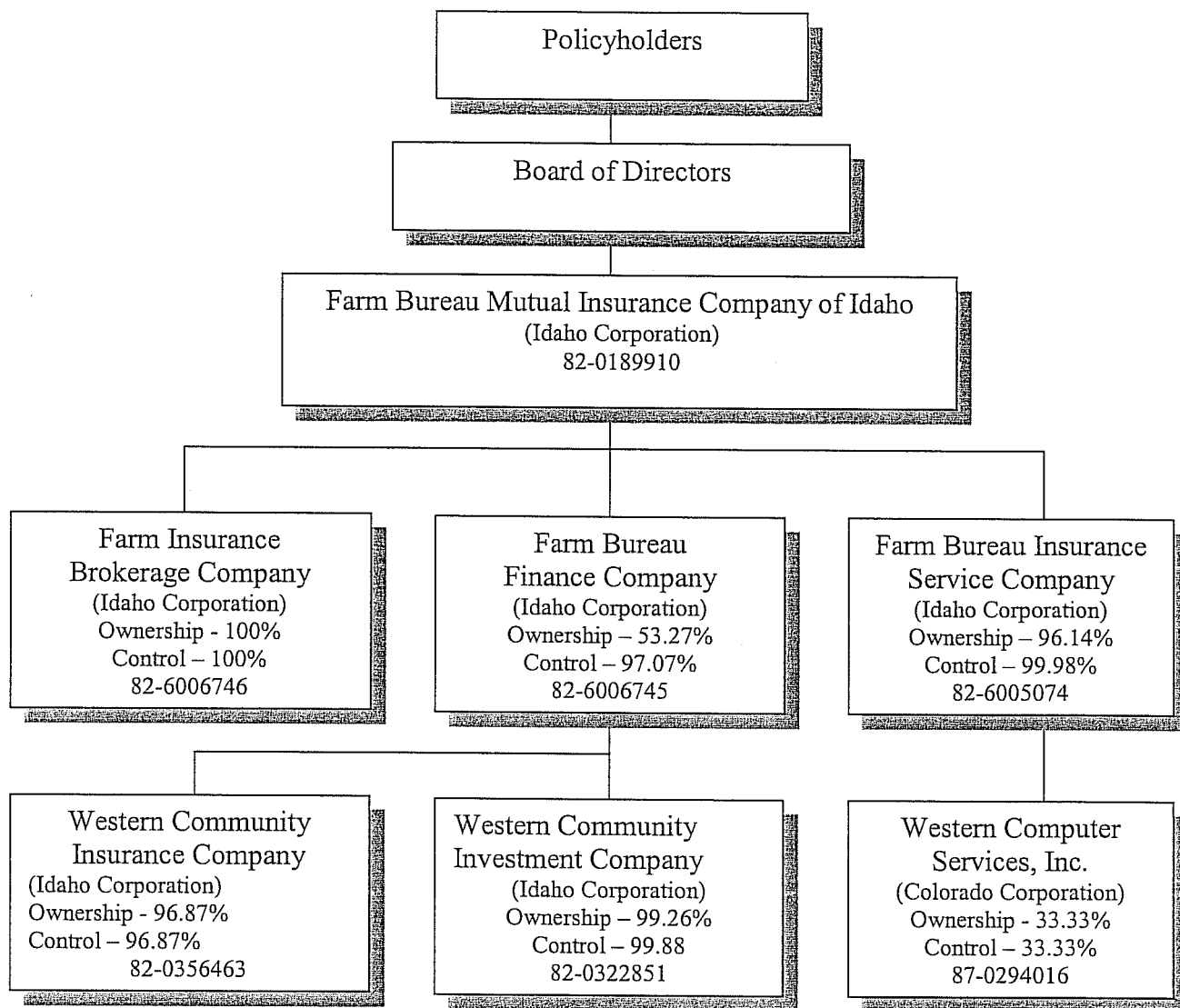
#### Idaho Insurance Guaranty Association

The Company was a member of the Idaho Insurance Guaranty Association, pursuant to Idaho Code Section 41-3606.

### MANAGEMENT AND CONTROL

#### Insurance Holding Company System

The Company was a member of an insurance holding company system, as defined in Idaho Code Section 41-3801. The Company's "Ultimate Controlling Person" was Farm Bureau Mutual Insurance Company of Idaho (FBMIC). An organizational chart of FBMIC was as follows:



Changes noted, since the examination as of December 31, 1998, were the change in the percentage of ownership of Farm Insurance Brokerage Company from 96.8% to 100% and Western Community Insurance Company from 98.0% to 96.87%. Farm Bureau Insurance Service Company, a subsidiary of the Company, also acquired Western Computer Services, Inc. in August 2001.

The Company's Form B Holding Company Registration Statements for the period under examination were reviewed. It was noted in the Form B, dated May 23, 2003, that the ownership percentages, reflected in the organizational chart, were incorrect for Farm Insurance Brokerage Company. Also the Form B did not reflect Farm Bureau Insurance Service Company's acquisition of 1/3 interest in Western Computer Services, Inc.

Schedule Y, Part 1 of the Company's 2002 annual statement reflected an incorrect percentage of ownership for Farm Bureau Insurance Service Company and did not reflect Western Computer

Services, Inc. as a member of the holding company system. It is recommended that the Company be more diligent in completing Schedule Y and its Form B filing.

### Directors

The following individuals were serving as members of the Company's Board of Directors as of December 31, 2002:

<u>Name and Location</u>	<u>Position</u>
Loyal I. Fleener * Deary, Idaho	Self Employed
Marjorie A. French Princeton, Idaho	Chapter 1 Aide, Potlatch School District # 285
Dave D. Hall Inkom, Idaho	Self Employed Farmer
Niel A. Hergert, Sr. Nampa, Idaho	Self Employed
Larry S. Jenson ** Roberts, Idaho	President, Silver Ridge Ranch, Inc.
Cloy K. Jones Heyburn, Idaho	Self Employed
Terry A. Jones Emmett, Idaho	Owner, Treasure Valley Land & Cattle Company
Curtis E. Krantz Parma, Idaho	Self Employed
Gerald L. Marchant Oakley, Idaho	Self Employed Rancher
Carl H. Montgomery Eden, Idaho	Self Employed
Herbert J. Offermann Sandpoint, Idaho	Retired Advertising Director, Bonner County Daily Bee
Frank S. Priestley Franklin, Idaho	Self Employed Farmer

Dean E. Schwendiman  
Newdale, Idaho

Self Employed Farmer

Bryan L. Searle  
Shelley, Idaho

Partner,  
Searle Farms

Lynn J. Steadman  
American Falls, Idaho

Self Employed Farmer

\* -On February 13, 2002, Loyal Fleener resigned from the board and was replaced by Danny G. Ferguson of Rigby, Idaho, on April 9, 2003.

\*\* -Effective January 24, 2003 Albert K. Johnson of Georgetown, Idaho, replaced Larry S. Jenson.

### Officers:

The following individuals were serving as officers of the Company as of December 31, 2002:

<u>Name</u>	<u>Position</u>
Frank S. Priestley .....	President
Phillip R. Joslin .....	Executive Vice President and CEO
Lynn J. Steadman .....	First Vice President
Dave Lehman .....	Vice President-Marketing & Assistant Secretary
James Beckley .....	Vice President-Claims & Assistant Secretary
Richard Petersen .....	Vice President-Legal Affairs & Assistant Secretary
Dan Hoffa .....	Vice President-Operations & Assistant Treasurer
Rick Keller .....	Secretary
Paul Roberts .....	Treasurer

Review of the Department's Corporate File indicated biographical affidavits for each Director and Officer had been filed with the Idaho Department of Insurance.

### Committees

The Bylaws authorize the appointment of an Executive Committee, however, none was appointed or active during the examination period. Subsequently on April 9, 2003, the Board of Directors appointed an Audit Committee. The committee consisted of the following members:

Marjorie French  
Dave Hall  
Niel Hergert, Sr.

Carl Montgomery  
Frank Priestley  
Dean Schwendiman

Lynn Steadman

### Conflict of Interest

The Company adopted a conflict of interest policy, which required the officers, directors, and office management personnel to disclose annually, on a prescribed written form, any affiliation with or material interest in any operation or activity which conflicts or may potentially conflict with their official duties with the Company. A review of the documents for the period under examination indicated that the forms were completed by all subject personnel and were filed on a yearly basis. No potential conflicts of interest were noted on the forms during the review.

### Contracts and Agreements

As of December 31, 2002, the Company was party to several agreements with affiliated companies for services, reinsurance and consolidated taxes. The agreements are summarized as follows:

#### Management Agreement

Effective January 1, 1999, the Company entered into a management agreement with Farm Bureau Mutual Insurance Company of Idaho (FBMIC), the Company's ultimate parent. Pursuant to the agreement, FBMIC agreed to provide complete management services for the lines of business written by the Company. The services provided include, but are not limited to, marketing, underwriting, collection of premiums, accounting, processing, and the adjustment and payment of claims.

FBMIC was compensated for its management services by a fee of 17% of direct premiums written by the Company. Such services included but not limited to management, marketing, underwriting, processing, travel, home office rent, employee expenses, personnel, data processing, equipment, actuarial, secretarial, accounting, collection of premiums, and processing of adjusting and paying claims.

The agreement also included a provision for the Company to pay an additional 2% of its direct written premium to FBMIC for use of its county office facilities, plus actual reimbursement (on a cost basis) for supplies, printing, telephone, postage, insurance, and other general expenses.

The agreement provided for the fees to be paid by the Company on a monthly basis within 30 days of receipt of the billing from FBMIC.

The management fees paid by the Company to FBMIC, during the period covered by this examination, were as follows:

Year	Amount
1999	\$2,385,333
2000	\$2,548,010
2001	\$2,737,655
2002	\$3,315,061

### Service Agreement

Effective September 7, 1999, the Company entered into an agreement with Farm Bureau Mutual Insurance Company of Idaho (both referred to as Insurers) and Farm Bureau Finance Company (Finance Company), which is an affiliate of the Insurers. The insurers desire to use the Finance Company for the purpose of financing their insurance premiums. The parties agreed to the following:

- a. Finance Company shall provide financing to the customers of the Insurers for insurance premiums payable to insurers.
- b. Finance Company shall comply with all applicable federal and state laws.
- c. Insurers agree that their agents and employees shall insure that all documentation required by the Finance Company of Insurer's customers is properly filled out and submitted.
- d. Insurers shall give its customers such disclosures, receipts or other documentation requested by Finance Company.
- e. Insurers shall provide personnel to monitor all payments and under the direction of Finance Company shall issue billings, loan disclosure statements and other paper that may be required to finance the premiums.
- f. The reimbursement for the cost of these employees shall be borne by the Finance Company and is included in the Management Agreement previously entered into by the parties.
- g. Insurers guarantee payment to the Finance Company of any balance due after cancellation of any policy. Finance Company agrees to assist Insurers in the collection of such sums.

### Reinsurance Agreement

Effective January 1, 1998, The Company entered into a reinsurance agreement with Farm Bureau Mutual Insurance Company of Idaho (FBMIC), whereby, the Company cedes 100% of all its direct written business to FBMIC. In conjunction with this, the Management Agreement also provided that FBMIC will arrange for excess reinsurance coverage facilities and provide reinsurance reporting services for the Company on the business written, which is subject to the terms of the agreement. FBMIC and the Company, in proportion to their respective retentions on the business, shall share the reinsurance costs.

FBMIC agreed to provide the Company all necessary reports and statistical data within 15 days after the close of each month. The Company agreed to make payments to FBMIC based on these reports within 15 days of their receipt from FBMIC.

Either party may terminate this agreement, at the end of any given year, by giving the other a written notice of termination at least 90 days prior to the end of the calendar year.



### Consolidated Income Tax Allocation Agreement

On January 26, 1998, the Company entered into a consolidated income tax allocation agreement with Farm Bureau Mutual Insurance Company of Idaho, along with other corporate entities included in the holding company system. The other entities included were Farm Insurance Brokerage Company, Farm Bureau Finance Company, Farm Bureau Insurance Service Company of Idaho and Western Community Investment Company, all of which are Idaho corporations.

The Company along with the other entities acknowledged that they have previously authorized FBMIC to include them in its consolidated federal income tax returns for the tax years, which ended on December 31, 1992, 1993, 1994, 1995, and 1996, and further authorize FBMIC to include them in future consolidated income tax returns, unless consent is specifically withdrawn by formal notice to FBMIC.

The parties to the agreement mutually agreed to allocate the consolidated federal income tax liability for all years for which the consolidated group has filed or will file a consolidated income tax return by applying the liability method to each member of the group as if it were a separate taxpayer.

The amount of federal income tax allocated to each member was computed by applying the current income tax rate for the year being allocated to the separately computed taxable income before the elimination of items considered on a consolidated basis, such as, net capital gains and gains or losses from Form 4797 transactions, less each member's share of the dividends received deduction.

FBMIC and the Company are insurance companies, which are taxed under Idaho Code Section 41-405 and not subject to Idaho corporation income tax; therefore, they were not subject to state income tax allocation, under the terms of the agreement.

The parties made estimated tax payments based on their allocation of federal and state income taxes for the previous year. Settlements of balances due or refunds receivable were determined by subtracting the estimated payments made for the year from the federal and Idaho State income tax allocated to each party for that year.

This agreement continues on a year-to-year basis until such time as a party gives the remaining parties 30 days written notice of cancellation.

## CORPORATE RECORDS

### Articles of Incorporation and Bylaws

A review of Company records indicated that there was one amendment to the Company's Articles of Incorporation, during the period covered by this examination. On January 22, 1999, the Company's shareholders approved an amendment to Article VI of the Company's Articles of Incorporation. The amendment was submitted and approved by the Department on February 8, 1999. The amendment changed the number of authorized shares of capital stock of the Company from 150,000 shares of \$20 par value to One Million shares of \$20 par value for an ultimate aggregate of \$20,000,000.

During the examination period, the Company's bylaws were not amended. However, on September 27, 1999, the Department approved the Amended bylaws dated November 14, 1995.

Subsequent to the examination date, the Company amended its bylaws on September 29, 2003. Copies of the amended bylaws were filed and approved by the Idaho Department of Insurance on October 7, 2003. The new bylaws were basically a reconfiguration and modernization of the prior bylaws.

### Minutes of Meetings

The minutes of meetings of the Company's stockholders and Board of Directors were reviewed for the examination period. The review indicated that the meetings were held in compliance with the bylaws, and were adequately attended.

The minutes reflected the annual elections of the Board of Directors and Officers, acceptance of independent auditor's reports, investment transactions, and amendments to the Company's bylaws.

The minutes of the Directors meeting, held on April 19, 2000, acknowledged the receipt, review and acceptance of the statutory examination report as of December 31, 1998, conducted by the Idaho Department of Insurance.

## FIDELITY BOND AND OTHER INSURANCE

Insurance coverages, for the protection of the Company, were maintained throughout the period covered by this examination. Coverages in effect as of December 31, 2002, are summarized as follows:

### Fidelity Bond

Fidelity and employee dishonesty coverage is provided to the Company and other named subsidiary entities up to a single loss and aggregate limit of \$800,000, which exceeded the minimum recommended per NAIC Financial Condition Examiners Handbook.

### Other Insurance

The Company was also a named insured on a number of other insurance policies, which included the following coverages:

Commercial Property	Worker's Compensation
Commercial General Liability	Professional Liability
Commercial Inland Marine	Directors' and Officers' Liability
Commercial Auto Liability	Commercial Occurrence Excess coverage

The insurance companies providing the coverages to the Company were authorized insurers in the State of Idaho. It appears that the Company maintained adequate coverages for risks to which the Company may be exposed.

### SALARY, WAGE AND EMPLOYEE BENEFITS

All of the employees performing the operations of the Company were employees of the Farm Bureau Mutual Insurance Company of Idaho, as provided pursuant to the Management Agreement between the two companies. The Company had no employees and provided no employee benefits directly.

### Stock Option Plan

The Company introduced a stock option plan February 6, 1991, which granted options for 5,000 shares of Company stock at a price of \$64.25 per share to several key officers of the Company and to the Voluntary Employee Savings Plan. The expiration date on this offering was January 1, 2001. During the current examination period, the remaining options were either exercised or cashed out prior to the expiration date.

On March 26, 2002 stock options for an additional 8,100 shares were granted at a price of \$83.85 per share. These share were also granted to key officers and employees. The expiration date of the offering was March 26, 2012. The Company's Board of Directors approved the stock options at their February 14, 2001 meeting.

All of the stock options remain outstanding, except for 500 shares, which were cashed out on December 31, 2002, leaving a balance of 7,600 shares outstanding at December 31, 2002.

### TERRITORY AND PLAN OF OPERATION

The Company was licensed, as a property and casualty insurer, in the States of Idaho, Oregon, and Washington. The Company had not written any business in the States of Oregon and Washington, during the period covered by this examination. In Idaho, the Company operated under Certificate of Authority No. 1287 and concentrated mainly on commercial multiple peril, commercial auto liability, private auto liability, auto physical damage, inland marine, and workers' compensation lines of business.

The Company used captive agents as their sales force and had approximately 154 active appointed agents as of December 31, 2002. Operations of the Company were conducted from its home office located in Pocatello, Idaho. The Company had 41 county or field offices located throughout the State of Idaho.

The Company utilized two contract forms. The Special Agent's Contract was entered into with new agents. The contract provides for the agent to receive monthly salary, plus a commission, as provided for in the special agent's commission schedule. The contract is effective for three years after execution and can be terminated by either party upon written notice.

After the agent is established, he executes a contract entitled Career Agent's Contract. The term of this contract was on a continuous basis, until terminated. The agent is not an employee, but is considered an independent contractor. The contract contained the usual provisions concerning business conduct, acting in the Company's best interest, and abiding by the rules, regulations, and procedures of the Company, and all applicable State insurance laws and regulations. Commissions under the agreement were based on a commission schedule.

The commission schedule provides for growth incentive commissions, loss ratio bonus commissions, and client service commissions, in addition to the first year and renewal commissions.

Subsequent on May 1, 2003, the Company ceased writing and renewing all workers' compensation policies that were in force on that date. This action was approved by the Company's Board of Directors at their February 12, 2003 meeting.

## Producer Licensing

### Appointment Review

A listing of licensed agents, provided by the Company, was reconciled with a listing provided by the Idaho Department of Insurance, with no significant exceptions noted.

### Agent/Agency File Review

A copy of the Fund's Agency Agreement was provided and reviewed. A sample of agent/agency files were selected and reviewed for signed agency agreements and existing licensing and appointments were verified. No exceptions were noted during the review.

### Terminated Appointments Review

There were 37 terminated appointments recorded by the Department for the period covered by this examination. A sample of the terminated agents' files was selected and reviewed for a copy of the termination notice to the Department and that the notice reflected the reasons for the appointment termination in accordance with Idaho Code Section 41-1019(1)(2). No exceptions were noted during the review.

### Commissions Paid Review

The Company paid commissions on a monthly basis. The commission rate, ranging from 5% to 11%, was determined from a schedule of commissions in effect at the time the policy was written. In addition to the basic first year and renewal commission, the Company paid incentive and bonus commissions, which are indicated on the commission schedule.

A sample was selected from commissions paid for the month of September 2002. A detail of the agents' account for September was reviewed and traced to the subsequent payment. The commission rates applied to the agents' September account were traced to the commission schedule in effect as of that date. Agents' files were reviewed for proper appointments and contracts. No exceptions were noted.

### STATUTORY AND SPECIAL DEPOSITS

As of December 31, 2002, the Company provided the following securities in trust for the protection of its policyholders and creditors, through the Idaho Director of Insurance and held by U.S. Bank, in compliance with Idaho Code Section 41-316:

<u>Description</u>	<u>Par Value</u>	<u>Statement Value</u>	<u>Fair Value *</u>
Austin TX Gen Oblig, 4.5%, 9/1/2015	\$ 100,000	\$ 100,000	\$ 102,833
Bannock & Caribou JT SD #21 Gen Oblig, 5.4%, 9/1/2005	115,000	115,000	115,662
Boise & Ada Cntys ISD Gen Oblig, 5.5%, 7/30/2011	100,000	99,658	102,627
Boise City ID ISD, 5.2%, 7/30/2008	100,000	99,518	111,233
Boise City ID ISD, 5.4%, 7/30/2014	100,000	98,558	102,262
Boise State Univ ID Rev Stu Un Hsg, 5.25%, 4/1/2017	100,000	98,752	101,308
Boise Waste Water Ref, 4.7%, 2/1/2015	100,000	98,752	104,343
Boise Waste Water Facility Rev, 4.6%, 2/1/2014	100,000	93,464	104,469
Fremont & Madison Cntys JT SD #215, 5%, 8/1/2005	100,000	100,150	105,761
Idaho Health Fac Auth St. Joseph, 5.25%, 7/1/2013	100,000	97,631	104,278
Idaho State Univ Student Fee Rev, 5.4%, 4/1/2008	100,000	100,000	107,270
Jefferson Cnty ID SD #253, 5.4%, 8/1/2010	100,000	100,000	107,398
Southern ID Reg Solid Waste COP, 5.45%, 11/1/2013	100,000	97,999	102,389
Total	<u>\$1,315,000</u>	<u>\$1,299,482</u>	<u>\$1,371,833</u>

\* - The fair market value amounts were taken from the December 2002 statement of the custodian bank.

The following securities were held by Wells Fargo Bank Northwest, N.A. and approved by the State Treasurer, for Workers Compensation deposit requirements pursuant to Idaho Code Section 41-317:

<u>Description</u>	<u>Par Value</u>	<u>Statement Value</u>	<u>Fair Value *</u>
Ada & Canyon County Jt SD #2, 5.1%, Due 7/30/2006	\$100,000	\$100,000	\$109,926
Boise City ID Ind. SD, 4.6%, 7/30/2015	100,000	103,524	104,815
Cassia Oneida Twin Falls Cntys JT SD, 5.25%, 8/4/2011	100,000	100,616	111,498
Cassia Oneida Twin Falls Cntys JT SD, 5%, 8/1/2007	100,000	100,000	110,637
Elmore Cnty Idaho SD #193, 4.9%, 7/31/2009	100,000	99,434	108,236
Idaho Health Fac. Holy Cross Rev., 5.25%, 12/1/2012	100,000	102,032	107,014
Idaho Hsg & Fin Assn., 5.15%, 8/1/2013	100,000	99,248	104,688
Jerome Lincoln Gooding Cntys SD #261, 4.8%, 7/31/2009	100,000	100,000	101,891
University of Idaho Student Fee Rev., 5%, 4/13/2013	<u>100,000</u>	<u>105,519</u>	<u>109,053</u>
Total	<u>\$900,000</u>	<u>\$910,373</u>	<u>\$967,758</u>

\* - The fair market value amounts were taken from the December 2002 statement of the custodian bank.

Also, U.S. Bank of Oregon held the following securities, pursuant to section 731-624 of the Oregon Code:

<u>Description</u>	<u>Par Value</u>	<u>Statement Value</u>	<u>Fair Value *</u>
Canyon County ID SD #317, 5%, 8/1/2007	\$215,000	\$214,121	\$218,425
Wasatch County UT SD; 4.8%, 12/1/2008	<u>100,000</u>	<u>100,000</u>	<u>106,708</u>
Total	<u>\$315,000</u>	<u>\$314,121</u>	<u>\$325,133</u>

\* - The fair market value amounts were taken from the December 2002 statement of the custodian bank.

### GROWTH OF THE COMPANY

The following schedule reflects the growth of the Company, as reported in the Company's annual statements, for the respective years as indicated in the following schedule:

<u>Year</u>	<u>Net Admitted Assets</u>	<u>Liabilities</u>	<u>Policyholders' Surplus</u>	<u>Net Income (Loss)</u>
1998 *	\$13,127,420	\$1,118,008	\$12,009,412	\$ 955,572
1999	\$13,786,395	\$ 985,203	\$12,801,192	\$ 830,607
2000	\$14,552,479	\$ 756,435	\$13,796,044	\$ 905,352
2001	\$17,765,080	\$3,745,409	\$14,019,671	\$ 773,436
2002 *	\$18,783,427	\$4,104,999	\$14,678,428	\$1,018,587

\* - Per Examination

### LOSS EXPERIENCE

The ratio of claims and underwriting expenses incurred to premiums earned, as reported in the Fund's annual statements are scheduled below:

<u>Year</u>	<u>Premiums Earned</u>	<u>Losses &amp; LAE Incurred</u>	<u>Underwriting Expenses Incurred</u>	<u>Total Losses, LAE and Expenses</u>	<u>Ratio of Total Losses, LAE, and Expenses to Premiums Earned</u>
1998 *	\$151,942	\$ 73,776	\$(508,877)	\$(435,101)	-286.4%
1999	\$ 89,267	\$ 55,555	\$(346,612)	\$(291,057)	-326.1%
2000	\$ 17,113	\$ 25,476	\$(365,626)	\$(340,150)	-1987.7%
2001	\$106,395	\$231,115	\$(363,119)	\$(132,004)	-124.1%
2002 *	\$196,621	\$148,109	\$(334,659)	\$(186,550)	-94.9%

\* Per Examination

During 1998 – 2000, the premium volume was decreasing and the loss ratio was increasing, which was due to the run-off of the Company's participation in the Mutual Atomic Energy Reinsurance Pool. In 2001, the Company participated in American Agricultural Insurance Company's Domestic and International Non-Farm Bureau Pools. The large loss ratio was due the results of losses attributed to the September 11 catastrophe. As indicated in the above schedule, the loss ratio for 2002 has returned to a more normal level.

## REINSURANCE

### ASSUMED

The company assumed business through various reinsurance agreements from authorized reinsurers, which are summarized as follows:

<u>Ceding Company</u>	<u>Plan of Reinsurance</u>
American Agricultural Insurance Company (AAIC)	Multi-Line Pool Domestic Non-Farm Bureau Pool International Non-Farm Bureau Pool
National Council on Compensation Insurance. (NCCI)	National Workers Compensation Reinsurance Pool (NWCRP)

### Multi-Line Pool

The Pool is based on pool shares relating to various line of business assumed by AAIC. The Company assumes one share with each share representing up to \$25,000 of exposure per risk or a maximum of \$25,000. The Company receives premiums based on the retrocession percentage of 0.67% less a service fee of 1.5%.

#### Domestic Non-Farm Bureau Pool

The Pool provides property coverage from Non-Farm Bureau Companies that covers exposures primarily within the United States. The Company receives premiums based upon their assumed percentage of 1% less a service fee. The Company is then responsible for its percentage of losses.

#### International Non-Farm Bureau Pool

The Pool provides property coverage from Non-Farm Bureau Companies that covers exposures primarily outside the United States. The Company receives premiums based upon their assumed percentage of 1% less a service fee. The Company is then responsible for its percentage of losses.

#### National Workers Compensation Reinsurance Pool (NWCRP)

The Company added Workers Compensation Insurance during 1997, and automatically became a participant in the National Workers Compensation Reinsurance Pool (NWCRP). NWCRP is a voluntary, non-profit, unincorporated association, which is administered by the National Council on Compensation Insurance. (NCCI) The Company assumes reinsurance on Idaho risks insured through the pool, and its participation is directly proportional to the percentage of its direct writings to all workers compensation business written in the State of Idaho.

All the assumed reinsurance contracts contain all the clauses and termination provisions suggested in the NAIC Financial Condition Examiners Handbook.

#### CEDED

The Company cedes 100% of its premium on all direct lines of business and class groups to Farm Bureau Mutual Insurance Company of Idaho. According to the agreement, the premium shall be paid to Farm Bureau when collected from the insureds. The Company receives a ceding commission of 33% of the premium, and the reporting and settlements of the transactions are made on a monthly basis.

The Company pays all federal and state taxes, including premium tax on all business ceded. Farm Bureau pays all agent commissions and overwrites on all business issued by Farm Bureau agents for the Company, however, the Company reimburses Farm Bureau for these commissions. Farm Bureau shall maintain reserves with respect to unearned premium and claims under this agreement. A review of the agreement disclosed that it contained an acceptable insolvency clause, as well as provisions for arbitration and inspection of records.

The agreement may be terminated by either party upon giving the other written notice on or before July 1 of the year in which the termination is to be effective, with the termination not going into effect until December 31 of the year in which notice is given.



## INSURANCE PRODUCTS AND RELATED PRACTICES

### Policy Forms and Underwriting

The Company offered various property and casualty insurance coverages in Idaho only. The Company wrote mostly commercial lines of business. Policy forms for coverages offered included the follows:

Commercial Vehicle	Commercial Crime
Commercial Umbrella	Surety
Commercial Excess Liability	Garage Liability
Business Owners	Commercial Property
Commercial Inland Marine	Commercial General Liability
Wescom Non-Standard Automobile	Workers Compensation

During the period under examination, the Company filed a number of endorsements and revised policy forms for various lines of coverage, with the Idaho Department of Insurance. A listing of policy forms, filed with the Department, was compared to the forms provided to the examiners by the Company. No exceptions were noted during the review.

It was noted during the review of the Company's underwriting manual that the Company utilized insurance scoring in determining the cost of insurance coverages. On review and supported by documentation provided by the Company's management, it was determined that the use of insurance scoring was in compliance with IDAPA 18.01.19.

### Treatment of Policyholders

#### Paid Claims-General Review

The claims review was conducted by the examiner to determine the accuracy of the Company information and to determine that claims have been paid in a timely manner and in the general handling procedures prescribed by the Idaho Code Title 41. The review sample was selected by using ACL from a file provided by the Company, which contained the data for all claim payments made during 2002. The total of paid claims of the data provided was reconciled to the paid claim amounts reflected in the Company's general ledger and in the Company's 2002 annual statement. The claim review indicated that the Company's claim payment data was accurate and that the claims were paid in a timely manner and in accordance with policy provisions. No exceptions were noted during the review.

#### Complaint Review

The Company maintained complaint handling procedures and a complaint register as required by Idaho Code Section 41-1330. During the examination period, four complaints had been submitted to the Idaho Department of Insurance. The Company's complaint register was reviewed and a sample was selected for further review. The review indicated that the Company responded to the complaints in a timely manner and the Company's response was appropriate. No exceptions were noted.

### Credit Scoring

A review of the Company's use of the insured's credit score indicated that the Company did not use the Credit Score in determining the insured's premium amounts. As part of the review, the examiner provided a questionnaire for the Company's underwriting manager to complete. The questionnaire was completed, with the Company providing attachments regarding credit scoring.

As part of the questionnaire specifically item number 16, requesting the Company to indicate which lines of business the Company uses the insured's credit score. The Company responded that the Company did not use credit scores. This was reasonable as the Company wrote commercial and high-risk coverages. Therefore, as the Company did not use credit scoring in determining the insured's premium rates, it was determined that no further review was necessary with regard to Idaho Code Section 41-1843 and IDAPA 18.01.19.

### Fraudulent Claims

The Company's Agent's Information Manual and the Claims Operations Guide include references to insurance fraud and claims of a suspicious nature. The Claims Operations Guide further references the National Insurance Crime Bureau's Indicators of Property Fraud. During the examination period, the Company was in compliance with Idaho Code Section 41-290 in that it had reported, to the Director of the Idaho Department of Insurance, by virtue of the "Suspect Fraudulent Claim Report," instances that the Company had belief that a fraudulent claim had been made.

### Gramm-Leach-Bliley Act of 1999

The Company sent out its first notice as a mass mailing to all of its current policyholders in June 2001. This notice met the Act requirement, which mandated the initial notice be sent no later than July 1, 2001. Subsequently the Company distributed copies of the notice along with the declaration pages and policy booklets for all new business. For all renewal business the Company included copies of the notice with the declaration pages. The notice is also posted on the Company's website at [www.idfbins.com](http://www.idfbins.com). The Company did not provide an opt-out notice because the manner in which it uses the information does not require it to provide such a notice. The Company does not sell information and those vendors, that it sends information to, provide reports back to the Company and the vendor does not release the information to others. As of the examination date, the Company was in compliance with the Gramm-Leach-Bliley Act.

### Advertising and Sales Material

During the examination period, the Company did not directly participate in any advertising or distribute any advertising materials.

## ACCOUNTS AND RECORDS

### General Accounting

The Company used OLIE (On Line Information Executive), an interactive system on its mainframe computer using PCs connected to its LAN (Local Area Network) and WAN (Wide

Area Network). OLIE was used to capture data for Policy Management, Claims Management, Accounts Payable and Receivable, General Ledger, etc.

The Policy Management System of OLIE was used to issue policies, pay commissions, create general ledger entries, set up policy accounts receivable and all other reporting needed by the Company. The Claims Management System used the information on OLIE to verify policy coverage information before setting up reserves or claims. Once coverage was verified, claims payments were made with checks written and general ledger entries created. All management reporting for claims was generated from data processed by the system.

Information from the Policy Management System and the Claims Management System were fed into the Accounts Payable/Receivable Systems. This included claim payments, commissions, policy balances due, and other payables. Billing, reports and general ledger entries were produced and used by its accounting systems. The systems were written and maintained in the Information Systems Department of the Company. All the systems were somewhat dependent on each other, in that they use information captured and provided by each other.

The Company used Western Computer Systems, Inc. (WCSI) for processing the commercial policy and claims processing on WCSI's mainframe in Salt Lake City, Utah. The system is similar to OLIE. The LAN and WAN were used to access this system.

The Company compiled in annual statement utilizing a Freedom A/S 2000 software package, the NAIC Annual Statement Instructions and the Accounting Practices and Procedures Manual. The investment portfolio was maintained on Sungard's Enterprise Portfolio System (EPS). The Company's independent auditors maintained the fixed assets.

#### Independent Accountants

Deaton & Company, Chartered, Pocatello, Idaho was the Company's independent auditor for the period covered by this examination. Deaton & Company has been the Company's independent auditor since 1987.

The independent auditor's report issued for the year ending December 31, 2002, indicated the accompanying statutory balance sheets and related statements presented fairly, in all material respects, the financial position of the Company on a statutory basis. In compliance with Rule No. 62 (IDAPA 18.01.62), the independent auditors' reports for the period under examination were filed with the Idaho Department of Insurance.

The independent auditor's 2002 workpapers and supporting documentation were made available and reliance was placed on these workpapers, when possible, during this examination. When the auditor's workpapers were used, such workpapers were denoted to indicate that utilization.

#### Actuarial Opinion

A statement of actuarial opinion regarding the unpaid losses and loss adjustment expenses reported by the Company in its 2002 annual statement was made by Randall S. Nordquist. The opinion stated that Mr. Nordquist was an employee of Farm Bureau Mutual Insurance Company

of Idaho and appointed by the Company's Board of Directors on November 12, 2002 to render this opinion. Mr. Nordquist was a member of the American Academy of Actuaries and a Fellow of the Casualty Actuarial Society.

The opinion further stated his review included the actuarial assumptions, methods, and such test of calculations as deemed necessary to determine the loss and loss adjustment expense reserves. The opinion stated that the reserve amounts (1) met the requirements of the insurance laws of Idaho, (2) were computed in accordance with generally accepted loss reserving standards and principles, and (3) made a reasonable provision for all unpaid loss and loss adjustment expense obligations of the Company under the terms of its policies and agreements. In forming the opinion, the actuary relied upon data prepared by a responsible representative of the Company, and evaluated such data directly in the analysis for reasonableness and consistency. The actuary considered a material adverse deviation to be one in which the actual net outstanding losses and loss adjustment expenses exceeded the Company's reserves by an amount greater than \$750,000 (5% of the Company's surplus as regards policyholders). The actuarial items reported in the 2002 Annual Statement, on which Mr. Nordquist's opinion was rendered, were as follows:

Reserves for Unpaid Losses (Page 3, Line 1)	\$286,162
Reserve for Unpaid Loss Adjustment Expenses (Page 3, Line 3)	<u>0</u>
Total	<u>\$286,162</u>
Reserve for Unpaid Losses – Direct and Assumed (Schedule P-Part 1, Total of Columns 13 and 15)	\$11,518,000
Reserve for Unpaid Loss Adjustment Expenses – Direct and Assumed (Schedule P-Part 1, Total of Columns 17, 19, and 21)	2,442,000
Total	<u>\$13,960,000</u>
Extended Loss and Expense Reserve (Schedule P Interrogatories)	\$0
Retroactive Reinsurance Reserve Ceded or Assumed (Page 3, Write-in Item)	\$0

The following were taken into consideration in determining the above amounts:

- a. Anticipated salvage and subrogation included as a reduction to loss reserves reported in the Company's annual statement: \$0.
- b. Discount included as a reduction to loss reserves and loss expense reserves reported in the Company's annual statement: \$0 for tabular discount and \$0 for non-tabular discount.
- c. The net reserves for losses and expenses for the Company's share of voluntary and involuntary underwriting pools and associations for unpaid losses and expenses reported in the Company's annual statement: \$286,162.
- d. The net reserves for losses and loss adjustment expenses that the Company carried for Asbestos liabilities and Environmental liabilities reported in the Company's annual statement: Asbestos liabilities of \$0 and Environmental liabilities of \$0.

- e. In the total reserves for losses and loss adjustment expenses, the Company reported the extended loss and expense reserves in Schedule P Interrogatories of \$0.

Risk factors that could affect the variability of the Company's net loss reserves are uncertainty relating to losses assumed from pools and associations, and uncertainty relating to collectibility on reinsurance ceded to Farm Bureau Mutual Insurance Company of Idaho. The absence of other risk factors from this listing does not imply that additional factors will not be identified in the future as having significantly influenced the Company's reserves.

Reinsurance assumed from pools and associations constituted the entirety of the Company's net loss and loss adjustment expense reserves. The Company practice was to record 100% of the loss and loss adjustment reserves reported to it by the pools and associations, without accrual for any reporting lag. The Company participated in a small number of voluntary underwriting pools. The Company did not participate in any involuntary underwriting pools or associations. The net reserves, for losses and loss adjustment expenses, for the Company's share of voluntary pools and associations was \$286,162. This amount may include a small amount of exposure resulting from the September 11, 2001 terrorist attacks. The actuary considered the reserve uncertainty with respect to these pools and associations to be immaterial.

The Company ceded all of its direct business to Farm Bureau Mutual Insurance Company of Idaho, its up-stream parent. The Company's experience over the past five years did not disclose any uncollectible ceded losses and no amounts that have been or are currently in dispute. It was the Company's actuary's opinion that reinsurance collectibility was not a material risk factor.

## FINANCIAL STATEMENTS

The financial section of this report contains the following statements:

- Balance Sheet as of December 31, 2002
- Underwriting and Investment Exhibit, January 1, 2002, through December 31, 2002
- Capital and Surplus Account, December 31, 2001, through December 31, 2002
- Reconciliation of Capital and Surplus, December 31, 1998 through December 31, 2002

BALANCE SHEET  
December 31, 2002

	<u>Assets</u>			
	<u>Ledger</u>	<u>Non-</u> <u>Ledger</u>	<u>Not</u> <u>Admitted</u>	<u>Net</u> <u>Admitted</u>
Bonds	\$14,108,363	\$	\$	\$14,108,363
Common Stocks	746,546			746,546
Cash and Short term Investments	171,187			171,187
Premiums in Course of Collection	3,525,332		95,089	3,430,243
Federal Income Tax Recoverable and interest thereon	87,699			87,699
Interest, Dividends and RE Income Due and Accrued	238,650			238,650
Equities and Deposits in Pools and Associations	<u>739</u>	<u>      </u>	<u>      </u>	<u>739</u>
Total Assets	<u>\$18,878,516</u>	<u>\$ 0</u>	<u>\$95,089</u>	<u>\$18,783,427</u>

Liabilities, Surplus and Other Funds

Losses	\$ 286,162
Reinsurance Payable on Paid Loss and Loss Adjustment Expenses	172
Other Expenses	69,483
Taxes, Licenses and Fees	58,791
Unearned Premiums	30,808
Amounts Withheld or Retained by Company for Account of Others	657,506
Payable to Parent, Subsidiaries, and Affiliates	<u>3,002,077</u>
Total Liabilities	<u>\$ 4,104,999</u>
Common Capital Stock	\$ 3,343,940
Gross Paid in and Contributed Surplus	276,095
Unassigned funds (surplus)	<u>11,058,393</u>
Surplus as regards policyholders	<u>14,678,428</u>
Total Liabilities, Surplus and Other Funds	<u>\$18,783,427</u>

UNDERWRITING AND INVESTMENT EXHIBIT  
For the Period January 1, 2002, through December 31, 2002

STATEMENT OF INCOME

<u>Underwriting Income</u>	
Premiums earned	\$ 196,621
Deduct:	
Losses Incurred	\$ 148,109
Other Underwriting Expenses Incurred	(334,659)
Total Underwriting Deductions	<u>\$ (186,550)</u>
Net Underwriting Gain (Loss)	<u>\$ 383,171</u>
<u>Investment Income</u>	
Net Investment Income Earned	\$ 750,056
Net Realized Capital Gains (Losses)	247,797
Net Investment Gain (Loss)	<u>\$ 997,853</u>
<u>Other Income</u>	
Net Gain (Loss) from Agents' or Premium Balances Charged Off	\$ (56,505)
Aggregate Write-in for Miscellaneous Income	
Miscellaneous Income	12,670
Filing Fees	17,800
Total Other Income	<u>\$ (26,035)</u>
Net Gain From Operations Before Dividends and Federal Income Taxes	\$ 1,354,989
Dividends to policyholders	0
Net Gain (Loss) From Operations After Dividends and Before Federal Income Taxes	\$ 1,354,989
Federal Income Taxes Incurred	<u>336,402</u>
Net Income (Loss)	<u>\$ 1,018,587</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as Regards Policyholders, December 31, 2001	\$14,019,669
Net Income (Loss)	\$ 1,018,587
Net Unrealized Capital Gain (Losses)	(529,291)
Change in net deferred income tax	206,079
Change in Non-Admitted Assets	(36,532)
Capital Change: Paid in	(20)
Surplus Change: Paid in	<u>(64)</u>
Net change in surplus for the year	<u>\$ 658,759</u>
Surplus as Regards Policyholders, December 31, 2002	<u>\$14,678,428</u>

RECONCILIATION OF SURPLUS  
December 31, 1998 through December 31, 2002

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Surplus, December 31, Prior Year	<u>\$12,009,412 *</u>	<u>\$12,801,193</u>	<u>\$13,796,043</u>	<u>\$14,019,669</u>
Net income	\$ 830,607	\$ 905,353	\$ 773,436	\$ 1,018,587
Net Unrealized Gains (Losses)	(37,486)	(72,549)	(316,510)	(456,945)
Change in Net Deferred Income Tax			124,591	133,733
Change in Non-Admitted Assets	(1,340)	4,600	(11,432)	(36,532)
Capital Change-Stock Dividend	1,652,000			
Capital Change-Paid in		40,000	(40)	(20)
Surplus Change-Stock Dividend	(1,652,000)			
Surplus Change-Paid in		117,446	(123)	(64)
Cumulative Effect of Changes in Accounting Principles	<u>0</u>	<u>0</u>	<u>(346,296)</u>	<u>0</u>
Net Change for the Year	<u>\$ 791,781</u>	<u>\$ 994,850</u>	<u>\$ 223,626</u>	<u>\$ 658,759</u>
Surplus, December 31, Current Year	<u>\$12,801,193</u>	<u>\$13,796,043</u>	<u>\$14,019,669</u>	<u>\$14,678,428 *</u>

\* - Per Examination



## NOTES TO FINANCIAL STATEMENTS

The statutory examination did not disclose any material adjustments to the Company's surplus as regards policyholders, as of December 31, 2002.

### SUMMARY, COMMENTS, AND RECOMMENDATIONS

#### Summary

The results of the examination disclosed that as of December 31, 2002, the Company had admitted assets of \$18,783,427, liabilities of \$4,104,999, and surplus as regards policyholders of \$14,678,428. The Company was in compliance with the minimum capital and surplus requirements of Idaho Code Section 41-313.

#### Comments and Recommendations

<u>Page</u>	<u>Description</u>
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| 8. | The Company's Form B Holding Company Registration Statements for the period under examination were reviewed. It was noted in the Form B, dated May 23, 2003, that the ownership percentages, reflected in the organizational chart, were incorrect for Farm Insurance Brokerage Company. Also the Form B did not reflect Farm Bureau Insurance Service Company's acquisition of 1/3 interest in Western Computer Services, Inc. |
|----|---|

Schedule Y, Part 1 of the Company's 2002 annual statement reflected an incorrect percentage of ownership for Farm Bureau Insurance Service Company and did not reflect Western Computer Services, Inc. as a member of the holding company system. It is recommended that the Company be more diligent in completing Schedule Y and its Form B filing.

### CONTINGENT LIABILITIES

At December 31, 2002, the Company did not have any significant commitments or contingent liabilities outstanding, which would have a material effect on the Company's operations, liquidity or surplus.

### CONCLUSION

The undersigned acknowledges the assistance and cooperation of the Company's officers and employees in conducting the examination.

In addition to the undersigned, David W. Emery, CFE, Senior Financial Examiner, and Taylor-Walker & Associates, Inc., Actuarial Consultants, participated in this examination.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Dean Cassens", is written over a horizontal line.

Dean Cassens, CFE  
Examiner-in-Charge  
Department of Insurance  
State of Idaho

AFFIDAVIT OF EXAMINER

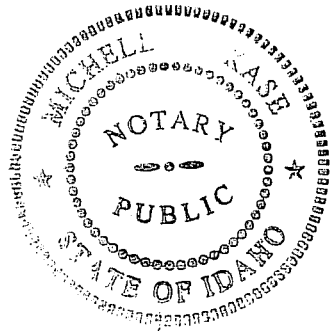
State of Idaho  
County of Bannock

Dean Cassens, being duly sworn, deposes and says that he is a duly appointed Examiner for the Department of Insurance of the State of Idaho, that he has made an examination of the affairs and financial condition of Western Community Insurance Company for the period from January 1, 1999, through December 31, 2002, that the information contained in the report consisting of the foregoing pages is true and correct to the best of his knowledge and belief, and that any conclusions and recommendations contained in this report are based on the facts disclosed in the examination.

Dean Cassens

Dean Cassens, CFE  
Senior Financial Examiner  
Department of Insurance  
State of Idaho

Subscribed and sworn to before me the 21st day of June,  
2004, at Pocatello, Idaho.



Michelle B. Kase  
Notary Public

My Commission Expires: 2/15/08